



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 3, 2014

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Adoption Of Resolution To Pledge Wastewater Fund Revenue To Repayment Of Clean Water Revolving Fund Loan

RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Pledging the Wastewater Fund Net System Revenue and Wastewater Fund to Payment of the Clean Water State Revolving Fund Financing for the Air Process Improvement Project, No. 7857-110, and Rescinding Resolution No. 13-083.

DISCUSSION:

The El Estero Wastewater Treatment Plant (El Estero) has been in service for over 33 years. Recent consultant engineering assessment and preliminary design work has demonstrated that significant process improvements must be made to upgrade the level of secondary treatment provided at El Estero in order to produce treated wastewater that can be effectively filtered for recycled water production and to reliably meet wastewater discharge permit limits. In prior years, El Estero has incurred stipulated penalties from the State Water Resources Control Board (SWRCB) related to its effluent quality.

The preliminary design phase for the Air Process Improvements Project at El Estero is complete. The project will replace old obsolete blowers, allow equipment operation to be controlled by actual air demand, significantly change the manner in which the activated sludge treatment is operated, and rehabilitate existing facilities. Final design phase work is anticipated to be completed by late-2015, with construction work beginning shortly thereafter. Construction work is estimated to be completed by mid-2017. A preliminary total cost estimate for the Air Process Improvements Project approximates \$20 million.

The State Revolving Fund (SRF) loan program provides 20-year loans at an interest rate lower than the State General Obligation Bond rate. This low interest rate offers significant savings for wastewater ratepayers.

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An SRF financing application process for this project with the State was originally initiated in 2012.

On March 5, 2013, Council adopted Resolution No. 13-008, authorizing the SRF loan application and the City Administrator's execution and delivery of the application to the SWRCB, and adopted Resolution No. 13-009, allowing City reimbursement for certain expenditures made prior to the final approval of the loan.

On September 24, 2013, Council adopted Resolution No. 13-083, pledging the Wastewater Fund net revenue to payment of a Clean Water State Revolving Fund (CWSRF) Financing Agreement.

The State revised its lending process in early 2013. In particular, in prior SRF loans, the State had simply used financing agreements secured by a pledge and lien on the revenue source for the loan repayment. Now, the State is utilizing a loan structure that is similar to a certificate of participation. With this type of structure, the lender (in this case the Water Board) purchases the project (Air Process Improvement) in exchange for which it pays the borrower (City) the loan proceeds (\$20,000,000). Concurrently, with that transaction, the borrower (City) buys the project back from the lender (Water Board) and pays the lender (Water Board) debt service in the form of annual installment payments over 20 years together with accrued interest at 1.9%. The payment of debt service is still secured by a pledge and a lien on the revenue source which, in this case, is the Wastewater Fund. The Wastewater Fund must maintain a debt service coverage of 1.20.

These changes to the structure of the SRF program necessitate that the City Council adopt a new resolution pledging the Wastewater Fund to payments under the Installment Sale Agreement. In addition, because the structure of the Installment Sale Agreement provides for a transfer of real property assets of the City in the form of the Air Process project at El Estero Treatment Plant to the Water Board, and the immediate transfer of those assets back to the City, City Charter Section 520 requires approval of the Agreement by ordinance. Charter Section 520 also requires approval by ordinance because the Agreement binds the City to the Agreement for a period longer than five years. At the time that the terms of the Installment Sale Agreement are finalized by the State, Staff will return to Council for approval of the agreement and adoption of an ordinance.

PREPARED BY: Chris Toth, Wastewater System Manager/CJT/mh

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office